



TREASURER OF THE STATE OF LOUISIANA

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State Treasurer

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To: The Honorable Bobby Jindal, Governor of Louisiana
The Honorable Louisiana Senate
The Honorable Louisiana House of Representatives

FROM: John Neely Kennedy, State Treasurer

RE: Annual Summary on the Financial Condition of the State of Louisiana
Fiscal Year 2011-2012

DATE: February 14, 2013

Please see the attached document containing the Louisiana Department of the Treasury's annual summary on the financial condition of the state. This information is being reported to you pursuant to Article IV, Section 9 of the 1974 Constitution.

In this year's summary, we provide data regarding state investments, cash flow, debt issuances, state trust funds, Unclaimed Property, Student Tuition Assistance and Revenue Trust (START) Saving program, Louisiana Asset Management Pool (LAMP), and Social Security. We also compare investment figures and program performance for Fiscal Year 2011-2012 (FY 2012) and Fiscal Year 2010-2011 (FY 2011).

The Treasury will continue efforts to earn the best rate of return possible on taxpayer dollars, consistent with preservation of capital, and meet our goals of financial strength and durability of the state. We will work with state leaders to fulfill our mission of promoting prudent cash management and investment strategies. We will work tirelessly to improve the state's finances, investment performance and credit rating.

For more information about the Treasury that may not be included in the attached summary, please visit www.latreasury.com or call (225) 342-0010.

Annual Summary of the Financial Condition of the State

Investment Division

The Investment Division is responsible for investing the monies deposited in the State Treasury to earn a reasonable rate of return while maintaining safety of principal and liquidity to meet the state's cash flow needs.

As part of the cash management program of the State of Louisiana, the Investment Division maintains several investment portfolios, collectively known as the General Fund, each with differing characteristics.

During Fiscal Year 2011-2012,

- The Treasury managed an average of \$9 billion in statutory and constitutionally created funds in FY 2012 compared to \$10 billion in FY 2011. Earnings on these funds totaled \$201.5 million in FY 2012 and \$237 million in FY 2011.
- The General Fund investment portfolios finished FY 2012 with \$5.4 billion in invested balances, \$93.9 million in earnings from investment activities and a cash basis simple yield of 1.79 percent. This compares to \$6 billion in invested balances, \$124.3 million in earnings from investment activities and a cash basis simple yield of 2.05 percent at the end of FY 2011.
- The Treasury awarded \$184.9 million in Certificates of Deposits (CDs) to 58 banks statewide through the Treasury's electronic auction service, BidLouisiana. This compares to \$241.7 million in CDs for 73 banks statewide in FY 2011.

State Trust Funds

The Investment Division also manages over \$3.5 billion in securities contained in State trust funds. These trust funds include the Louisiana Education Quality Trust Fund (LEQTF), Millennium Trust Fund, Medicaid Trust Fund for the Elderly, and the Transportation Trust Fund.

The Louisiana Education Quality Trust Fund (LEQTF) was created in 1986 by an Act of the Louisiana Legislature and an amendment to the Louisiana Constitution passed by the citizens of Louisiana. Investment income generated by the fund is dedicated to the sole purpose of providing educational enrichment programs. The acts established the Board of Elementary and Secondary Education (BESE) and the Board of Regents as beneficiaries. In addition, the acts also provided for the investment of these funds by the State Treasurer.

- The market value of the Louisiana Education Quality Trust Fund at the end of FY 2012 was \$1.16 billion with earnings of \$46.7 million and a total return rate of 6.68 percent. This compares to a market value in FY 2011 of \$1.12 billion, earnings of \$41.9 million, and a total return rate of 10.79 percent.

The Millennium Trust Fund was created by Act 1295 of the Legislative Regular Session of 1999 and established as a special permanent trust fund in the State Treasury. Act 1295 further created three special funds within the Millennium Trust: the Health Excellence Fund, Education Excellence Fund, and TOPS

(Taylor Opportunity Program for Students) Fund. The funding for the Millennium Trust comes from the tobacco settlement proceeds as prescribed by the Master Settlement Agreement executed on November 23, 1998.

- The market value of the Millennium Trust Fund at the end of FY 2012 was \$1.46 billion with earnings of \$41.4 million and a total return rate of 4.49 percent. This compares to a market value in FY 2011 of \$1.47 billion, earnings of \$45.7 million, and a total return rate of 2.98 percent.

The Medicaid Trust Fund for the Elderly was created as a permanent trust fund in the State Treasury by Act 143 of the 2000 First Extraordinary Legislative Session and authorizes the investment in equities of up to 35 percent of the Medicaid Trust Fund for the Elderly. The corpus of the fund is subject to appropriation as specified in R.S. 46:2691.

- The market value of the Medicaid Trust Fund at the end of FY 2012 was \$556 million with earnings of \$18.8 million and a total return rate of 5.36 percent. This compares to a market value in FY 2011 of \$602.9 million, earnings of \$22.5 million, and a total return rate of 3.47 percent.

The Transportation Trust Fund was established in 1990, as a special permanent trust fund in the State Treasury by a Legislative act and the passage of an amendment to the Louisiana Constitution by the citizens of the State. The act allows the Louisiana State Bond Commission to issue and sell bonds, notes, or other obligations secured by gasoline and fuels tax revenues. The monies in the trust fund are used for construction and maintenance of state and federal roads and bridges, the Statewide Flood Control Program, ports, airports, transit, state police traffic control projects, and the Parish Transportation Fund. The Transportation Trust Fund had an average invested fund balance in FY 2012 of \$525.6 million.

Office of State Depository Control - Fiscal Control Division

The Fiscal Control Division administers the state's constitutional and statutory funds created within the State Treasury. It provides an accounting of all receipts, controls all fund disbursements out of the State Treasury, and administers the backbone of the state's cash management program.

State cash resources are pooled in the central depository bank account by the Fiscal Control Division which accounts for and invests the deposits. These investment earnings are a major source of non-tax income.

During Fiscal Year 2011-2012,

- Through the centralized pooling of deposits, the Treasury processed over 1 million deposit items and 72,637 credits in FY 2012 resulting in a cash flow of over \$28.8 billion compared to 2.2 million deposit items, 76,153 credits and a cash flow of over \$30.4 billion in FY 2011.
- There were 403 special funds in the State Treasury in FY 2012 compared to 397 in FY 2011.
- The month-end balance overall cash position for the General Fund was \$(247.4) million deficit at the end of FY 2012 compared to \$241.4 million at the end of FY 2011.
- The interfund borrowing base was \$2.8 billion at the end of FY 2012 compared to \$3.1 billion at the end of FY 2011.

- The cash balance of the Rainy Day Fund was \$442.9 million at the end of FY 2012 compared to \$646.1 million at the end of FY 2011.

Louisiana State Bond Commission

The Louisiana State Bond Commission was created in 1968 to centralize and administer the incurring of state debt. Subsequent to the creation of the State Bond Commission, the State Bond and Tax Board, which had been charged with approving the issuance of bonds by various political subdivisions of the state, was abolished and its functions were transferred to the State Bond Commission.

The Louisiana Constitution of 1974, Article VII, Section 8, grants constitutional status to the Commission and provides that “No bonds or other obligations shall be issued or sold by the State directly or through any State board, agency or commission, or by any political subdivision of the State, unless prior written approval of the Commission is obtained.”

During Fiscal Year 2011-2012,

- The Treasury serviced and managed 19 outstanding General Obligation (GO) Bond issues with debt service payments totaling \$310 million and 2 floating to fixed interest rate swaps with swap related payments totaling \$7.4 million in FY 2012. This compares to 17 GO Bond issues with \$298 million in debt service payments and 2 floating to fixed interest rate swaps with \$7.6 million in swap related payments in FY 2011.
- In addition, the Treasury serviced and managed 9 outstanding Gas & Fuel Tax Bond issues with debt service payments totaling \$122 million and 8 floating to fixed interest rate swaps with swap related payments totaling \$17.2 million in FY 2012. This compares to 8 Gas & Fuel Tax Bond issues with \$119 million in debt service payments and 8 floating to fixed interest rate swaps with \$17.02 million in swap related payments in FY 2011.
- Debt issuances for FY 2012 include:
 - GO Series 2012A \$400.000 million (new money) and 2012B \$43.825 million (refunding)
 - GO Series 2012C \$423.090 million (refunding) and 2012D \$144.575 (taxable refunding)
 - Gasoline and Fuels Tax Series 2012A-1 \$803.080 million (fixed rate)
 - OFC Series 2012 \$69.9 million for Louisiana Capitol Complex Program (refunding)
 - LCDA Series 2011 \$31.5 million for Baton Rouge Community College Facilities Corporation (refunding)
 - LCDA Series 2012 \$42.6 million for Louisiana Community & Technical College System Facilities Corporation (new money)
 - LCDA Series 2012 \$24.1 million for Baton Rouge Community College Facilities Corporation (refunding)
 - St. James Parish Series 2011 \$26.7 million for State of Louisiana – Economic Development Project (new money)
 - West Calcasieu Parish Community Center Authority Series 2011 \$7.9 million for Events and Community Center Project

- The total par amount of Net State Tax Supported Debt (NSTSD) at the end of CY 2012 was \$6.2 billion compared to \$6 billion at the end of CY 2011. The amount of per capita NSTSD was \$1,345 in CY 2012 compared to \$1,318 in CY 2011.
- Standard & Poor's, Moody's Investor Service and Fitch rating agencies maintained the State's bond rating in FY 2012 of AA, Aa2, and AA, respectively, with a stable outlook.

Unclaimed Property

Unclaimed Property is lost money that is turned over to the state from a variety of sources; these funds include such items as payroll checks, old bank accounts, royalties, utility deposits, interest payments, stock certificates and life insurance proceeds. One in six individuals in Louisiana has Unclaimed Property, and the average refund is \$300 to \$400.

- The Treasury collected \$73.7 million in unclaimed property from businesses and refunded \$27 million to Louisiana residents in FY 2012 compared to \$61.2 million in collections and \$22.7 million in refunds in FY 2011.

START

The Student Tuition Assistance and Revenue Trust Program, commonly referred to as the "START Saving Program," is a 529 college savings plan designed to help families contend with the growing costs of educating their children after high school. The program is managed by the Treasury and administered by the Louisiana Office of Student Financial Assistance, under the direction of the Louisiana Tuition Trust Authority (LATTA). LATTA is a public body composed of representatives from all of the state's education governing boards, and includes the State Treasurer and one member from each house of the Louisiana Legislature. Because 529 Plans are authorized under IRS rules, START reports are based on a calendar year (CY) for tax purposes.

- At the close of CY 2012, there were a total of 45,088 START accounts, with more than \$415.8 million in total assets.
- At the close of CY 2012, START fixed income investments totaled \$159.3 million, a total of 39.4 percent of all START monies, and earned a rate of return of 2.52 percent. At the close of CY 2011, fixed income investments totaled \$142.5 million, a total of 42.7 percent of all START monies, and earned a rate of 2.79 percent.
- At the close of CY 2012, equity investments in START (managed by The Vanguard Group) totaled 60.6 percent of all START monies (or \$245.51 million) and earned a rate of return of 18.28 percent to 6.54 percent depending on the option chosen.
- At the close of CY 2011, equity investments in START totaled 57.3 percent of all START monies (or \$191.44 million) and earned a rate of return of 3.77 percent to 14.57 percent.

LAMP

The Louisiana Asset Management Pool (LAMP) for local governments combines the efficiency of private enterprise with the protection of public policy. It enables local officials to pool and collectively invest funds to benefit from competitive yields, lower fees and the same level of investment management otherwise available only to large institutional investors.

The fund is operated by a non-profit corporation, LAMP, Inc., whose officers include the President (State Treasurer), a Chief Executive Officer, a Chief Administrative Officer and a Participant Liaison, charged with day-to-day operations of the program.

LAMP has three primary objectives: 1) maintain a stable net asset value (LAMP has consistently earned a rating of AAAm from Standard & Poor's, the highest rating available to LAMP); 2) offer same day access to funds under management by online transactions, phone or fax with no transaction fees; and 3) by pooling funds, LAMP participants enjoy the level of professional money management otherwise available only to large institutional investors. This generally results in higher yields and lower management fees.

- Since its inception, LAMP has generated over \$500 million in interest for Louisiana public agencies. LAMP assets peaked at \$2 billion in March 2012 and ended FY 2012 at \$1.7 billion, 631 participants and 4,142 accounts. This compares to \$1.7 billion in assets, 626 participants and 3,881 accounts in FY 2011.

Social Security Division

The Social Security Division is responsible for administering the Social Security and Medicare coverage program for all public state and local governmental employers throughout the State of Louisiana.

- As of January, 2013, a total of 162 Medicare-Only referenda have been conducted at 88 local government agencies in Louisiana allowing approximately 35,481 government workers the option of paying the Medicare tax. These figures include approximately 10,000 state employees, all universities, 44 parish school boards and other local agencies.